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SUBJECT: SERBIA'S ELECTRICITY OFFER TO KOSOVO

SUMMARY

1. (SBU) The Working Group on Energy Cooperation met in Belgrade on October 26. As a result of the meeting, Serbia sent a formal proposal of an electricity donation for Kosovo on October 27 to Jolly Dixon, Chairman of the Working Group. The offer, considered to be a donation to avert a potential humanitarian crisis this winter, is the same as last year's: 50 million GWh of electricity per month benefiting those Serbian enclaves experiencing the greatest electrical outages. However, the offer appears to drop other conditions which Serbia had tried to include last year, including employment conditions and a request to establish its own power distribution company. However, econoff was told privately by UNMIK that an arrangement has already been reached between state-owned Elektroprivreda Srbije (EPS) and the Kosovo Energy Corporation (KEK) to supply free electricity, but the arrangement lacks the political cover a formal agreement would provide. END SUMMARY.

SERBIA'S OFFER OF ELECTRICITY WITH ONE CONDITION

2. (SBU) The Working Group on Energy Cooperation met on October 26 in Belgrade to discuss Serbia's offer of free electricity to Kosovo among other things. The meeting concluded with Serbia committing to send a detailed offer for the electricity donation by Friday, October 27. The Pristina delegation would not commit to a timeframe by which they would respond. Jolly Dixon, UNMIK Chairman of the Working Group, strongly urged Pristina to respond to Belgrade's offer within five days.

3. (SBU) Econoff obtained a copy of the October 30 letter signed by Nenad Popovic, Vice President of the Coordination Center of Serbia for Kosovo and Metohija (CCKM) and team leader of the Economic Team for Kosovo and Metohija and for the South of Serbia, and Miroslav Kukobat, Serbia's point person on Kosovo electricity issues, and dispatched to Jolly Dixon (full text in para 12). The Serb's offer 50 million GWh/month of electricity which, according to Kukobat, is equivalent to 5 percent of the total capacity needed and can supply electricity to some 30,000 people. The only condition would be a guarantee from UNMIK that the Serbian enclaves receive reliable electricity as a result of the donation to the extent it is possible. As a donor for a humanitarian crisis, Serbia believes it is justified in specifying how the donation would be used.

4. (SBU) In a meeting with econoffs on October 23, Miroslav Kukobat emphasized that it is not Serbia's intent to discriminate on an ethnic basis. Rather, the donation will go to assist the Kosovar Serbs who are the most vulnerable to electricity disruption without freedom of movement, employment and income to pay for electricity consumption. If Albanians also benefit from electricity being sent to these Serbian enclaves, Serbia has no problem with that. He was dismayed at UNMK's outright rejection of Serbia's offer last year before it even looked at whether or not it wastechinically fesible. He believes that it would bereasonable for UNMIK to accept an offer that willease the capacity stress on the system and sbsequently benefit other areas as well.

5. (SBU) Kukobat also said that Kosovar Serbs have no confidence in public institutions in Kosovo, and this adversely impacts the collection rate. Serbia is offering to establish a mechanism to facilitate better collection rates in Serbia areas, as much as an estimated 30 percent. However, Kukobat stressed that this is not a condition to the electricity offer. Rather, Serbia is offering this separately to help the situation.

SECRET DEAL REACHED?

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16. (SBU) Econoff met with Paul Mecklenburg, Political Advisor for the United Nations Office in Belgrade on October 25 to discuss efforts by Nenad Popovic, Serbia's head of the Economic Team for Kosovo and Metohija, to broker a deal between the EPS and KEK that would allow the transmission of free electricity to these Serbian enclaves while benefiting others in those areas. Mecklenburg says that while formal talks continue to founder over Serb conditions, in practice it appears that EPS has begun to provide power through the Serbian grid. While Popovic, IC personnel in Kosovo and local Albanian officials in KEK have confirmed this initial delivery, it appears to be quite limited in scope and no one -- either in UNMIK or KEK -- appears to be willing or able to confirm the details of this arrangement.

17. (SBU) There was no mention of a deal at the meeting of the Working Group on Energy Cooperation in Belgrade on October 26. Econoff privately asked UNMIK and GOS participants separately if a deal had been reached, and all said that they knew nothing about such a deal.

18. (SBU) The Working Group concluded with Serbia committing to send a formal offer for the electricity donation by Friday, October 27. The Pristina delegation would not commit to a timeframe by which they would respond. Jolly Dixon, UNMIK Chairman of the Working Group, strongly urged Pristina to respond to Belgrade's offer within five days.

EMS NOT SHOWING FAVORITISM

19. (SBU) UNMIK has accused Serbia's transmission system and market operator, EMS, of not providing transit of electricity from neighboring countries to Kosovo in a fair and transparent manner. On October 23, Fayed Risheg, UNMIK Head of Office in Belgrade, told econoff that as an example, EMS refused to transmit electricity already purchased from Bulgaria because it was not given proper notification. However, at another time when electricity was purchased from a Serbian supplier at twice the price and with the same notification time, EMS allegedly transmitted the electricity without any problems.

10. (SBU) Kukobat refuted these accusations, stating that documentation had been provided to the European Commission providing proof that EMS's transmission of electricity is done fairly and transparently. He cited a recent letter that Minister of Energy Radomir Naumov sent to the Andris Piebalgs, European Commissioner for Energy, in which Naumov also refuted these accusations by referring to the significant documentation submitted to EU representatives. The letter also appealed to the EU for their help in mediating the offer to export electricity to Kosovo. Kukobat believes that only the U.S. or the EU can help break the current stalemate that exists in the discussions.

11. (SBU) When Econoffs asked about the September 1 letter from Prime Minister Kostunica to EU Commission Solana offering power for Kosovo on an unconditional basis, Kukovat threw his hands in the air (figuratively) and said that the Ministry of Energy had not been consulted on that letter. However, the new offer is an effort to be as responsive as possible to humanitarian needs, he said.

12. (SBU) The following is the text of the October 30 letter from Nenad Popovic to Jolly Dixon regarding the Serbian offer of electricity:

Dear Mr. Dixon,

As you are well aware, from 1999, Kosovo and Metohija has been ruled by UNMIK in accordance with the UN Security Council Resolution 1244. Ever since, the electricity supply in Kosovo and Metohija (K-M) is very ineffective, reaching now very critical point. Our electricity companies, EPS and EMS, have not been allowed to operate on the territory of province. Serbia has no authority at all on the territory of the Province. In this respect, there is no responsibility of Serbian Government concerning the extremely bad energy situation in the Province.

Due to very bad condition of power facilities in the Province, all the population living in it has serious problems concerning the quality and regularity of electricity supply. Areas of the province mainly inhabited with the Serbian population are in the worst position. Almost every day, the Serbian population in K-M has no electricity for up to 20 hours per day, which is completely unacceptable in Europe, at the beginning of the 21st century. These electricity shortages during the most critical winter days instigated the real humanitarian disasters during the last two years. We would like to prevent these humanitarian disasters to repeat for the third year in a row, in view of which, we would like to once again offer a donation in electricity for the areas K-M predominantly inhabited by the Serbian population.

The Government of the Republic of Serbia is ready to provide

humanitarian assistance in electricity for K-M (50 GWh/month) for the winter season 2006/2007, for the areas predominantly inhabited by the Serb population (and also including the minority Albanian population in the areas), because these areas are considered as the most vulnerable and socially jeopardized. The guarantees of UNMIK that these areas will be provided with the electricity based on the delivered humanitarian electricity i.e. that these areas will temporary (sic) fall under the consumer category A, for the winter period 2006/2007, fully justify the basic fact that the donation should be targeted to the most vulnerable areas.

The most important is that UNMIK fully cooperates with us, in order to make our proposal technically feasible. This cooperation implies a readiness for the prompt start of talks, and for reaching a common understanding on highly technical, expert level, primarily concerning the power network exploitation, removal of the bottlenecks, and monitoring of the donation implementation. Only such approach could make our proposal really and timely implemented.

END TEXT.

COMMENT

13. (SBU) Serbia followed through with its commitment to offer the donation without all of the strings attached to last year's proposal. UNMIK had told us that they were initially amenable to the offer last year until the other conditions were placed upon it. This current offer provides two immediate benefits - Kosovar Serbs receive needed electricity while easing the stress on the grid and improving system integrity. It also would provide a tangible signal that increasing cooperation could co-exist with Kosovo final status; we believe that UNMIK should grab this offer and work to establish other areas of concrete cooperation.

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